

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE)
FUEL ADJUSTMENT CLAUSE OF DUKE ENERGY) CASE NO.
KENTUCKY, INC. FROM NOVEMBER 1, 2012) 2014-00454
THROUGH OCTOBER 31, 2014)

ORDER

Pursuant to 807 KAR 5:056, the Commission, on February 5, 2015, established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Duke Energy Kentucky, Inc. ("Duke Kentucky") for the period from November 1, 2012, through October 31, 2014, and to determine the amount of fuel costs that should be transferred in or out of its base rates to re-establish its FAC factor.

In establishing this review, the Commission ordered Duke Kentucky to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. Duke Kentucky submitted this information on February 20, 2015,¹ and filed responses to a second request for information on March 25, 2015. A public hearing was held on April 7, 2015. On April 21, 2015, Duke Kentucky filed a post-hearing data response to questions asked at the hearing. There are no intervenors in this proceeding.

¹ Duke Kentucky requested and was granted authority to file its direct testimony on February 25, 2015.

Base Fuel Cost

Duke Kentucky is proposing to increase the amount of fuel costs included in base rates and proposes that the month of July 2014 be used by the Commission as the base period for the purpose of arriving at the base fuel cost and the kilowatt hour ("kWh") sales components of its FAC. It further proposes that its base fuel cost be changed to 29.117 mills per kWh, the fuel cost for the proposed base period of July 2014. Given that Duke Kentucky's current base fuel cost is 27.466 mills per kWh, the proposal would result in an increase of 1.651 mills per kWh. Duke Kentucky states that July 2014 was selected as the proposed base period because it is reasonably close to the next two-year period and because the fuel rate for that period was the closest to the expected fuel rate projected for the next two-year period.

In establishing the appropriate level of base fuel cost to be included in Duke Kentucky's rates, the Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by Duke Kentucky. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of July 2014 is a reasonably representative generation month of Duke Kentucky. The analysis of Duke Kentucky's monthly fuel clause filings showed that the fuel cost billed for the two-year review period ranged from a low of 23.521 mills per kWh to a high of 42.470 mills per kWh, with an average cost billed for the period of 31.211 mills per kWh. Based upon this review, the Commission finds that the proposed base period fuel cost of 29.117 mills per kWh should be approved.

Purchased-Power Costs

In its January 30, 2015 Order in Case No. 2014-00229,² Duke Kentucky's last six-month FAC review proceeding, the Commission issued an Order which found, among other things, that certain purchased-power costs amounting to \$11,787 in excess of Duke Kentucky's own highest-cost generating unit available to be dispatched to serve native load during the reporting expense month would be disallowed in Duke Kentucky's upcoming two-year FAC review proceeding covering the period November 1, 2012, through October 31, 2014. Duke Kentucky requested, and was granted, rehearing on this issue. By Order entered on July 10, 2015, the Commission affirmed its January 30, 2015 Order in its entirety. Therefore, with this Order, the Commission will direct Duke Kentucky to refund to customers through its FAC \$11,787, which is the amount of power purchases in excess of Duke Kentucky's highest-cost unit available to be dispatched.³

Duke Kentucky reported that it did not recover through the FAC any power purchases in excess of its highest-cost unit available to be dispatched during the six-month period from May 1, 2014, through October 31, 2014.⁴ Therefore, outside of the \$11,787 discussed previously, there is no additional amount required to be refunded for the two-year review period.

² Case No. 2014-00229, An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky from November 1, 2013 through April 30, 2014 (Ky. PSC Jan. 30, 2015).

³ This amount, which occurred in the expense month of July 2013, is the only amount Duke Kentucky reported to be in excess of its highest-cost unit during the period November 1, 2012, through April 30, 2014. See Case No. 2014-00229, Response to Commission Staff's Third Request for Information, Item 2.c.

⁴ Response to Commission's February 5, 2015 Request for Information, Item 41.

PJM Interconnection, Inc. ("PJM") Billing Line Items

In its January 30, 2015 Order in Case No. 2014-00229, the Commission stated that, in the next FAC review proceeding covering the two-year period November 1, 2012, through October 31, 2014, it would examine the issue of regional transmission organization ("RTO") billing codes and the appropriateness of their inclusion in the FAC calculation for those utilities that are members. As a result, in the instant proceeding, Duke Kentucky has filed testimony and responded to discovery on the issue.

Duke Kentucky states it includes the following PJM billing line items in the calculation of its FAC:

- 1200 – Day-ahead Spot Market Energy
- 1205 – Balancing Spot Market Energy
- 1210 – Day-ahead Transmission Congestion
- 1215 – Balancing Transmission Congestion
- 1220 – Day-ahead Transmission Losses
- 1225 – Balancing Transmission Losses
- 2370 – Day-ahead Operating Reserve Credit
- 2375 – Balancing Operating Reserve Credit

According to Duke Kentucky, PJM billing line items 1200, 1205, 1210, 1215, 1220 and 1225 represent the components of power purchases from PJM that are necessary to serve its native load. Duke Kentucky claims that, if it were operating as a stand-alone balancing authority, in lieu of these PJM billing line items, it would run additional generating

units, incurring additional fuel expense, or make additional bi-lateral energy transactions to serve its load.⁵

Duke Kentucky describes PJM billing line items 2370 and 2375 as the credits that result from PJM scheduled generation and demand resources that operate as requested by PJM and are guaranteed to fully recover their offer amounts.⁶ The Commission approved a settlement agreement in Duke Kentucky's last electric base rate case⁷ in which Duke Kentucky agreed to credit through its FAC make-whole revenues received from the Midwest Independent System Operators, Inc. ("MISO"), the RTO of which it was a member at that time. Since transferring its membership from MISO to PJM⁸, Duke Kentucky has been crediting PJM billing line items 2370 and 2375 through its FAC because those billing line items are the PJM equivalent to the MISO make-whole payments.⁹

Duke Kentucky states that RTO costs associated with the energy market that were known at the time of its last base rate proceeding, Case No. 2006-00172, were included in its test year and are reflected in base rates, except for purchased-power costs as determined by the after-the-fact costing model and native portion of make-whole payments.¹⁰ Duke Kentucky states that it has not had a base electric rate case since becoming a member of PJM and, because MISO and PJM do not use identical billing

⁵ Direct Testimony of John D. Swez at 16 ("Swez Testimony").

⁶ *Id.* at 15-16.

⁷ Case No. 2006-00172, *Application of The Union Light, Heat and Power Company D/B/A Duke Energy Kentucky for an Adjustment of Electric Rates* (Ky. PSC Dec. 21, 2006).

⁸ Now known as Midcontinent Independent System Operator.

⁹ Response to Item 5 of Commission Staff's Second Request for Information ("Staff's Second Request").

¹⁰ Response to Item 12.f. of Staff's Second Request.

criteria, at the time of its next base rate proceeding, it will be necessary to ensure that all such charges and credits are appropriately reflected in the FAC, base rates, or another recovery mechanism.¹¹

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Outside of the issues addressed in previous Commission Orders for the two-year review period, Duke Kentucky has complied with the provisions of 807 KAR 5:056.
2. The month of July 2014 should be used as Duke Kentucky's base period.
3. Duke Kentucky's proposed base-period fuel cost of 29.117 mills per kWh should be approved.
4. The establishment of a base fuel cost of 29.117 mills per kWh requires a transfer (roll-in) of 1.651 mills per kWh of fuel costs to Duke Kentucky's base rates.
5. The rates in the Appendix to this Order are designed to reflect the transfer (roll-in) of 1.651 mills per kWh to base rates, which is the differential between the old base fuel cost of 27.466 mills per kWh and the new base fuel cost of 29.117 mills per kWh.
6. The rates in the Appendix to this Order are fair, just and reasonable and should be approved effective with Duke Kentucky's first billing cycle for September 2015.
7. Beginning with the expense month for September 2015, Duke Kentucky should use an FAC rate based upon a base fuel cost of 29.117 mills per kWh.
8. The PJM billing line items included by Duke Kentucky in its FAC calculation should be approved, subject to the limitation of power purchase recovery to Duke

¹¹ Swez Testimony at 17.

Kentucky's highest-cost generation unit available to be dispatched during the expense month.

9. Duke Kentucky should make no change to the PJM billing line items included in the calculation of its FAC without Commission authorization.

10. With its first FAC filing made subsequent to the date of this Order, Duke Kentucky should refund to customers \$11,787 through its FAC.

IT IS THEREFORE ORDERED that:

1. Outside of the issues addressed in previous Commission Orders for the two-year review period, the charges and credits applied by Duke Kentucky through the FAC for the period from November 1, 2012, through October 31, 2014, are approved.

2. Duke Kentucky's proposed base fuel cost of 29.117 mills per kWh is approved.

3. Duke Kentucky shall transfer (roll-in) 1.651 mills per kWh of fuel costs to its base rates.

4. The rates in the Appendix to this Order are approved effective with Duke Kentucky's first billing cycle for September 2015.

5. Beginning with the expense month for September 2015, Duke Kentucky shall use an FAC rate based upon a base fuel cost of 29.117 mills per kWh.

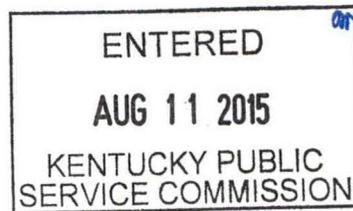
6. The PJM billing line items included by Duke Kentucky in its FAC calculation are approved, subject to the limitation of power purchase recovery to Duke Kentucky's highest-cost generation unit available to be dispatched during the expense month.

7. Duke Kentucky shall make no change to the PJM billing line items included in the calculation of its FAC without Commission authorization.

8. With its first FAC filing made subsequent to the date of this Order, Duke Kentucky shall refund to customers \$11,787 through its FAC.

9. Within 20 days of the date of this Order, Duke Kentucky shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets with the Commission setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00454 DATED **AUG 11 2015**

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SCHEDULE RS
RESIDENTIAL SERVICE

Energy Charge per kWh:
All kWh per month \$.080736

SCHEDULE DS
SERVICE AT SECONDARY DISTRIBUTION VOLTAGE

Energy Charge per kWh:
First 6,000 kWh \$.086925
Next 300 kWh/ kW \$.055399
Additional kWh \$.046323

SCHEDULE DT
TIME-OF-DAY RATE FOR SERVICE AT DISTRIBUTION VOLTAGE

Energy Charge per kWh:
Summer on-peak \$.049475
Winter on-peak \$.047475
Off-peak \$.041475

SCHEDULE DT
TIME-OF-DAY RATE FOR SERVICE AT DISTRIBUTION VOLTAGE
LOW LOAD FACTOR – PILOT PROGRAM

Energy Charge per kWh:
Summer on-peak \$.052137
Winter on-peak \$.050137
Off-peak \$.044137

SCHEDULE EH
ELECTRIC SPACE HEATING

Energy Charge per kWh:
All kWh per month \$.066804

SCHEDULE SP
SEASONAL SPORTS SERVICE

Energy Charge per kWh:
All kWh per month \$.105878

SCHEDULE GS-FL
UNMETERED GENERAL SERVICE FOR SMALL FIXED LOADS

Energy Charge per kWh:
Load range of 540 to 720 hours per month \$.086003
Loads less than 540 hours per month \$.098227

SCHEDULE DP
SERVICE AT PRIMARY DISTRIBUTION VOLTAGE

Energy Charge per kWh:
First 300 kWh/kW \$.056348
Additional kWh \$.048478

SCHEDULE TT
TIME-OF-DAY RATE FOR SERVICE AT TRANSMISSION VOLTAGE

Energy Charge per kWh:
All kWh per month \$.047928

SCHEDULE TL
TRAFFIC LIGHTING SERVICE

Energy Charge per kWh:
Energy only \$.043346
Energy w/maintenance \$.064425

SCHEDULE UOLS
UNMETERED OUTDOOR LIGHTING SERVICE

Energy Charge per kWh:
All kWh per month \$.042761

SCHEDULE SL
STREET LIGHTING SERVICE

Rate per Light per Month: (Lumens Approximate)

Standard Fixture (Cobra Head) Served Overhead

Mercury Vapor:

7,000 Lumens	\$ 7.46
7,000 Lumens – Open Refractor	\$ 6.32
10,000 Lumens	\$ 8.72
21,000 Lumens	\$ 11.78

Metal Halide:

14,000 Lumens	\$ 7.46
20,500 Lumens	\$ 8.72
36,000 Lumens	\$ 11.78

Sodium Vapor:

9,500 Lumens	\$ 8.08
9,500 Lumens – Open Refractor	\$ 6.12
16,000 Lumens	\$ 8.89
22,000 Lumens	\$ 11.54
27,500 Lumens	\$ 11.54
50,000 Lumens	\$ 15.81

Sodium Vapor Decorative Fixtures:

9,500 Lumens – Rectilinear	\$ 9.99
22,000 Lumens – Rectilinear	\$ 12.54
50,000 Lumens – Rectilinear	\$ 16.86
50,000 Lumens – Setback	\$ 24.65

Standard Fixture (Cobra Head) Served Underground

Mercury Vapor:

7,000 Lumens	\$ 7.62
7,000 Lumens – Open Refractor	\$ 6.32
10,000 Lumens	\$ 8.89
21,000 Lumens	\$ 12.09

Metal Halide:

14,000 Lumens	\$ 7.62
20,500 Lumens	\$ 8.89
36,000 Lumens	\$ 12.09

Sodium Vapor:	
9,500 Lumens	\$ 8.08
9,500 Lumens – Open Refractor	\$ 6.20
16,000 Lumens	\$ 8.86
22,000 Lumens	\$ 11.54
50,000 Lumens	\$ 15.81

Decorative Fixture (Cobra Head) Served Underground:

Mercury Vapor:	
7,000 Lumens – Town & Country	\$ 7.86
7,000 Lumens – Holophane	\$ 9.78
7,000 Lumens – Gas Replica	\$ 21.86
7,000 Lumens – Granville	\$ 7.94
7,000 Lumens – Aspen	\$ 13.99

Metal Halide:	
14,000 Lumens – Traditionaire	\$ 7.86
14,000 Lumens – Granville Acorn	\$ 13.99
14,000 Lumens – Gas Replica	\$ 21.95

Sodium Vapor:	
9,500 Lumens – Town & Country	\$ 11.14
9,500 Lumens – Holophane	\$ 12.07
9,500 Lumens – Rectilinear	\$ 9.04
9,500 Lumens – Gas Replica	\$ 22.49
9,500 Lumens – Apsen	\$ 14.02
9,500 Lumens – Traditionaire	\$ 11.14
9,500 Lumens – Granville Acorn	\$ 14.02
22,000 Lumens – Rectilinear	\$ 12.60
50,000 Lumens – Rectilinear	\$ 16.92
50,000 Lumens – Setback	\$ 24.65

SCHEDULE OL
OUTDOOR LIGHTING SERVICE

Rate per Light per Month: (Lumens Approximate)

Standard Fixture (Cobra Head):

Mercury Vapor:	
7,000 Lumens – Open Refractor	\$ 9.11
7,000 Lumens	\$ 11.55
10,000 Lumens	\$ 13.57
21,000 Lumens	\$ 17.59

Metal Halide:		
14,000 Lumens	\$	11.55
20,500 Lumens	\$	13.59
36,000 Lumens	\$	17.59
Sodium Vapor:		
9,500 Lumens – Open Refractor	\$	7.89
9,500 Lumens	\$	10.20
16,000 Lumens	\$	11.58
22,000 Lumens	\$	12.88
27,500 Lumens	\$	12.88
50,000 Lumens	\$	15.39

Decorative Fixture:

Mercury Vapor:		
7,000 Lumens – Town & Country	\$	13.76
7,000 Lumens – Holophane	\$	17.62
7,000 Lumens – Gas Replica	\$	42.04
7,000 Lumens – Aspen	\$	26.15
Sodium Vapor:		
9,500 Lumens – Town & Country	\$	21.31
9,500 Lumens – Holophane	\$	23.09
9,500 Lumens – Rectilinear	\$	19.00
9,500 Lumens – Gas Replica	\$	44.17
9,500 Lumens – Apsen	\$	26.86
9,500 Lumens – Traditionaire	\$	21.31
9,500 Lumens – Granville Acorn	\$	26.86
22,000 Lumens – Rectilinear	\$	22.82
50,000 Lumens – Rectilinear	\$	29.24
50,000 Lumens – Setback	\$	45.01

Flood Lighting Served Overhead:

Mercury Vapor:		
21,000 Lumens	\$	17.60
Metal Halide:		
20,500 Lumens	\$	13.57
36,000 Lumens	\$	17.60
Sodium Vapor:		
22,000 Lumens	\$	12.83
30,000 Lumens	\$	12.83
50,000 Lumens	\$	16.23

SCHEDULE NSU
STREET LIGHTING SERVICE – NON-STANDARD UNITS

Rate per Light per Month: (Lumens Approximate)

Boulevard Units Served Underground:

2,500 Lumens – Incandescent Series	\$ 9.49
2,500 Lumens – Incandescent Multiple	\$ 7.51

Holophane Decorative Served Underground:

Mercury Vapor:	
10,000 Lumens	\$ 17.32

Street Lighting Served Overhead:

2,500 Lumens – Incandescent	\$ 7.45
2,500 Lumens – Mercury Vapor	\$ 6.91
21,000 Lumens – Mercury Vapor	\$ 11.50

Steel Boulevard Units Served Underground:

2,500 Lumens – Incandescent Series	\$ 5.71
2,500 Lumens – Incandescent Multiple	\$ 7.27

SCHEDULE NSP
PRIVATE OUTDOOR LIGHTING SERVICE – NON-STANDARD UNITS

Rate per Light per Month: (Lumens Approximate)

Private Outdoor Lighting Served Overhead:

2,500 Lumens – Mercury, Open Refractor	\$ 8.01
2,500 Lumens – Mercury, Enclosed Refractor	\$ 10.88

Outdoor Lighting Served Underground:

7,000 Lumens – Mercury, 17 Ft Fiberglass Pole	\$ 14.92
7,000 Lumens – Mercury, 17 Ft Wood Lam Pole	\$ 14.92
7,000 Lumens – Mercury, 30 Ft Wood Pole	\$ 13.82
9,500 Lumens – Sodium Vapor, TC 100 R	\$ 11.43

Flood Lighting Served Overhead:

52,000 Lumens – Mercury 35 Ft Wood Pole	\$ 30.57
52,000 Lumens – Mercury 50 Ft Wood Pole	\$ 34.18
50,000 Lumens – Sodium Vapor	\$ 20.65

SCHEDULE SC
STREET LIGHTING SERVICE – CUSTOMER OWNED

Rate per Light per Month: (Lumens Approximate)

Standard Fixture (Cobra Head) Served Overhead:

Mercury Vapor:

7,000 Lumens	\$	4.54
10,000 Lumens	\$	5.84
21,000 Lumens	\$	8.19

Metal Halide:

14,000 Lumens	\$	4.54
20,500 Lumens	\$	5.84
36,000 Lumens	\$	8.19

Sodium Vapor:

9,500 Lumens	\$	5.25
16,000 Lumens	\$	5.93
22,000 Lumens	\$	6.58
27,500 Lumens	\$	6.58
50,000 Lumens	\$	9.22

Decorative Fixture Served Overhead:

Mercury Vapor:

7,000 Lumens – Holophane	\$	5.70
7,000 Lumens – Town & Country	\$	5.65
7,000 Lumens – Gas Replica	\$	5.70
7,000 Lumens – Aspen	\$	5.70

Metal Halide:

14,000 Lumens – Traditionaire	\$	5.65
14,000 Lumens – Granville Acorn	\$	5.70
14,000 Lumens – Gas Replica	\$	5.70

Sodium Vapor:

9,500 Lumens – Town & Country	\$	5.17
9,500 Lumens – Traditionaire	\$	5.17
9,500 Lumens – Granville Acorn	\$	5.41
9,500 Lumens – Rectilinear	\$	5.17
9,500 Lumens – Apsen	\$	5.41
9,500 Lumens – Holophane	\$	5.41
9,500 Lumens – Gas Replica	\$	5.41
22,000 Lumens – Rectilinear	\$	6.99
50,000 Lumens – Rectilinear	\$	9.51

SCHEDULE SE
STREET LIGHTING SERVICE – OVERHEAD EQUIVALENT

Decorative Fixtures:

Mercury Vapor:

7,000 Lumens – Holophane	\$	7.66
7,000 Lumens – Town & Country	\$	7.71
7,000 Lumens – Gas Replica	\$	7.71
7,000 Lumens – Aspen	\$	7.71

Metal Halide:

14,000 Lumens – Traditionaire	\$	7.66
14,000 Lumens – Granville Acorn	\$	7.71
14,000 Lumens – Gas Replica	\$	7.71

Sodium Vapor:

9,500 Lumens –Town & Country	\$	8.16
9,500 Lumens – Holophane	\$	8.28
9,500 Lumens – Rectilinear	\$	8.16
9,500 Lumens – Gas Replica	\$	8.27
9,500 Lumens – Apsen	\$	8.27
9,500 Lumens – Traditionaire	\$	8.16
9,500 Lumens – Granville Acorn	\$	8.27
22,000 Lumens – Rectilinear	\$	11.87
50,000 Lumens – Rectilinear	\$	15.97
50,000 Lumens – Setback	\$	15.97

*Rocco O D'Ascenzo
Duke Energy Kentucky, Inc.
139 East Fourth Street
P. O. Box 960
Cincinnati, OH 45201

*Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

*Kristen Ryan
Senior Paralegal
Duke Energy Kentucky, Inc.
139 East Fourth Street
P. O. Box 960
Cincinnati, OH 45201